

# **CITY OF LYNCHBURG, VIRGINIA INTERNAL AUDIT CHARTER**

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**CITY OF LYNCHBURG**  
**INTERNAL AUDIT CHARTER**

**Office of Internal Audit**  
**Effective July 1, 1996**  
**Revised 9/02**

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Internal Audit Charter  
July 1, 1996**

Internal auditing is an independent appraisal activity within an organization for the review of operations as a service to management. It is a control which measures and evaluates the effectiveness of other controls.

The Audit Committee and the Office of Internal Audit are established in Chapter 2, Article IV, Section 2-129 of the Code of the City of Lynchburg.

This charter:

1. Provides a written record of formally approved policies of the City of Lynchburg's Office of Internal Audit.
2. Provides a basis for the evaluation of the performance of the Office of Internal Audit.
3. Serves as a basis for the organization and administration of the Office of Internal Audit.

**STATEMENT OF PURPOSE, AUTHORITY, AND RESPONSIBILITIES**

**Objective**

The overall objective of the Office of Internal Audit is to assist management of the City of Lynchburg and the City Council in the effective discharge of their responsibilities by providing them with objective analyses, appraisals, recommendations, counsel and information concerning the activities reviewed. The audit objective includes promoting effective control at reasonable cost.

**Scope**

The scope of internal audit encompasses the examination and evaluation of the adequacy and effectiveness of the city's system of internal control and the quality of performance in carrying out assigned responsibilities. The scope includes:

- \* Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- \* Reviewing the systems established to ensure compliance with laws, policies, plans, procedures, and regulations which could have a significant impact on operations and reports.
- \* Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- \* Appraising the economy and efficiency with which resources are employed.

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- \* Reviewing operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- \* Conducting process reviews and consulting assignments negotiated with appropriate City officials.

**Audit Standards**

The Institute of Internal Auditors, Inc., an international organization dedicated solely to the advancement of the internal audit profession, has adopted *Standards for the Professional Practice of Internal Auditing*. The Office of Internal Audit for the City of Lynchburg recognizes the benefits of these standards, and hereby adopts the *Standards of the Professional Practice of Internal Auditing* as an integral part of the Internal Audit Charter.

The American Institute of Certified Public Accountants has promulgated *Generally Accepted Auditing Standards (GAAS)* through "Statements of Auditing Standards," Industry Audit Guides, and other professional releases. The Office of Internal Audit endorses and adopts the use of *GAAS*.

The United States General Accounting Office recommends the *Standards for Audit of Governmental Organizations, Programs, Activities, and Functions*. The Office of Internal Audit adopts the use of these standards in conducting its work.

**Reporting Structure**

The Office of Internal Audit serves at the pleasure of the City Council. For the purpose of the day-to-day direction, the office shall report to the City Manager.

The Audit Committee shall review and approve the audit schedule; and shall meet with the Director of the Office of Internal Audit on a bi-monthly basis to discuss 1) progress of the Office of Internal Audit; 2) disposition of reported audit findings and recommendations; 3) limitations imposed on the scope of internal audits; 4) audit scheduling and staffing; and 5) issues relative to external audits and reviews.

**Authority**

To the extent permitted by law, the Office of Internal Audit shall have unrestricted access to all activities, properties, personnel, and records which are relevant to an area under review. It is understood that certain items are confidential in nature and special arrangements will be made when examining and reporting upon such items.

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**Independence**

The Office of Internal Audit shall be free from control or undue influence in:

- \* the selection and application of audit techniques, procedures and programs;
- \* the determination of facts revealed by the examination or in the development of recommendations or opinions; and
- \* the selection of areas, activities, personal relationships and managerial policies to be examined. No legitimate source of information is to be closed to the auditor.

**Objectivity**

Objectivity is an essential element of independence. The independence of the Office of Internal Audit may be compromised if the internal auditor participates directly in system development, which includes preparation or reconstruction of accounting systems, data, or records. Therefore, the Office of Internal Audit will participate in an advisory or consulting capacity in the development, implementation, and modification of major computer-based and manual systems. Internal audit's participation may include reviews for assurance that:

- \* adequate controls are incorporated in systems;
- \* sufficient testing of the system is performed at appropriate stages;
- \* system documentation is complete and accurate; and
- \* the intended objective of the system implementation or modification has been met.

**Audit Performance**

1. The Office of Internal Audit will submit an Audit Plan to the Audit Committee annually for review and approval. The Audit Plan will include the current year proposed audit schedule, staffing plan, and financial budget. Any significant interim changes will also be approved by the Committee. As a part of the audit schedule, a segment of time will be budgeted for the performance of special reviews, and consulting assignments requested by the City Manager and/or City Council.
2. The Office of Internal Audit will be responsible for coordinating audit efforts with those of external auditors.
3. The Office of Internal Audit has a responsibility to conduct reviews with an attitude of professional skepticism and should be alert to those conditions and activities where irregularities are most likely to occur. Audit procedures alone do not guarantee that irregularities will be detected. The Office of Internal Audit is not solely responsible for detection and prevention of all errors and irregularities which may occur.

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Deterrence of fraud is the responsibility of management. The Office of Internal Audit is responsible for examining and evaluating the adequacy and the effectiveness of actions taken by management to fulfill this obligation.

4. At the conclusion of each audit, a draft Audit Report will be issued to the department or activity under review, and to the City Manager. An exit conference will be held to discuss the findings, conclusions, and recommendations, and any difference of opinion will be settled or so noted. The department or activity will be provided an opportunity to respond in writing to the findings. The written response will be included in the Final Audit Report. If a response is not received by the Office of Internal Audit within the designated response time, the report will be issued without the inclusion of a management response.
5. At the conclusion of a consulting engagement, a meeting will be scheduled between departmental management and Internal Audit to discuss observations and suggestions. A plan of action will be prepared to address the suggested improvements accepted by management. A final report will be issued which will specify those items to be addressed in the action plan. Internal Audit will participate with management to complete these items to the extent that objectivity is not compromised.
6. Follow-up reviews will be performed by the Office of Internal Audit to determine that the agreed upon corrective actions have been implemented. The timing of such reviews will be determined by the Office of Internal Audit and the Audit Committee. It is the responsibility of management to ensure that corrective measures are implemented in a timely manner.
7. The Office of Internal Audit will report annually to the Audit Committee as to the effectiveness of the audit staff in fulfilling the stated objectives of the office. Recognizing that certified personnel must attend continuing education courses and good management practices indicate the need for continuing education, the Office of Internal Audit will require each staff member to obtain forty (40) hours of continuing education credits annually.
8. The City of Lynchburg recognizes the benefits to be derived from a Quality Assurance Review of the internal audit function. The Audit Committee will solicit an external quality review at least once every three (3) years unless limited resources or other unforeseen factors justify a different interval. The review will determine compliance with the standards incorporated in this charter and shall be conducted by qualified, non-partisan, objective persons who are independent of the City's functions and activities.

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Approved by the City of Lynchburg, Audit Committee on the \_\_\_\_\_ Day of \_\_\_\_\_, 2002

\_\_\_\_\_  
L. Kimball Payne, City Manager

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Bert Dodson, Jr. Chairman

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Julian R. Adams, Councilman

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David Reddy

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Glenn McGrath

Revised 9/02